South Shore Hospital

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March 4, 2010

Mr. David Morales
Commissioner
Commonwealth of Massachusetts
Executive Office of Health and Human Services
Division of Health Care Finance and Policy
Two Boylston Street
Boston, MA 02116

Dear Mr. Morales:

The enclosed information is in response to your correspondence to South Shore Hospital dated February 12, 2010. Enclosed please find South Shore Hospital's written testimony responding to the areas of inquiry identified in Exhibit B and Exhibit C.

This written testimony is signed under the pains and penalty of perjury.

Sincerely,

Richard H. Aubut
President & CEO

/pld

enclosures

Exhibit B

Questions

1) After reviewing the preliminary reports located at www.mass.gov/dhcfp/costtrends please provide commentary on any data, or finding that differs from your organization's experience and the potential reasons therefore.

Summary: South Shore Hospital has focused on the major conclusions in the reports related to hospital services. The hospital cannot comment with respect to premium levels and trends in private health insurance plans For the most part, South Shore Hospital has not experienced many of the trends published in the preliminary reports.

Answer: As detailed in our responses below, South Shore Hospital's growth has been in inpatient services, not outpatient services. The hospital attributes this to building programs that have had a significant impact on inpatient services and the hospital not expanding its outpatient ambulatory capabilities outside the main hospital campus. Outpatient diagnostic imaging growth has been experienced as a result of an increase in trauma cases, scheduled outpatient imaging tests have grown minimally. The hospital has experienced inpatient price/service mix growth consistent with the report's findings that mirrors our investments in inpatient services.

2) Do you see trends in your revenues, from 2006 to 2008 or more recently, that differ materially from these aggregate trends with respect to:
    a. The rate of change in outpatient facility prices and faster revenue growth compared with inpatient revenues;
    b. The growth of revenues for outpatient imaging services;
    c. Price changes versus other sources of growth in revenues, for inpatient and outpatient services.

Summary: South Shore Hospital has experienced differences in the aggregate trends. Based on our analysis of our region's most pressing community health needs and of those who most depend on us for care, a majority of our investments have been in programs that have benefited inpatients more than outpatients. South Shore Hospital has not materially expanded its outpatient capabilities during this time frame. This has resulted in inpatient services growing faster than outpatient services. Outpatient imaging services for scheduled patients have seen minimal growth, while imaging for patients being seen in our emergency department has increased significantly. Our Hospital has experienced increases in facility prices for inpatient services consistent with those in the report; however, outpatient price/mix growth is lower than in the report.

Answer: South Shore Hospital has not seen its outpatient facility prices grow at the same rate contained in the report. On a per-procedure-basis commercial insurance price/service mix grew at an average annual increase of 1.7% from fiscal 2006 to fiscal 2008 versus the price/service mix change of 4.8% published in the report.

South Shore Hospital, due to its investments in programs that serve predominantly inpatients, physician coverage such as cardiovascular services, maternal-fetal medicine,

hospitalist coverage and intensivists coverage, has seen a greater rise in inpatient revenues versus outpatient revenues. To provide a more accurate comparison to the findings in the report, the following information excludes our homecare division in order to focus on services delivered in the hospital setting. Across all insurance types in fiscal 2006, the portion of net patient service revenue derived from inpatient activities was 55%, in fiscal 2008 it grew to 58%. Examining commercial payers reveals that only the share of revenues from inpatient services grew even more, from 46% in fiscal 2006 to 51% in fiscal 2008.

Concerning outpatient imaging services, our Hospital experienced minor growth in scheduled exams from fiscal 2006 to fiscal 2008. We did, however, experience growth in the number of diagnostic imaging procedures for patients being seen in the emergency department as it built up to achieving Level II trauma designation. During this timeframe the number of trauma patients grew by 11.0% annually. Even with the inclusion of additional trauma cases, aggregate outpatient imaging volume growth averaged 2.8% per year during the report period. The attached Table 1 details our imaging growth by modality from fiscal 2006 to fiscal 2008.

3) What are the one or two most important underlying causes of your experience, as described above? Provide any information you have that will support your assertions. In particular:

    a. What accounts for the growth in inpatient facility prices? What accounts for the growth of hospital outpatient facility price per service? What accounts for the growth in utilization of outpatient hospital facility services? Do you foresee the same factors continuing to drive the growth in total facility revenues in future years?

    b. How does your relative market position or market share affect your cost or revenue trends?

Summary: The investments by South Shore Hospital in clinical programs make our Hospital the preferred choice for care by increasing members of our community and region. We have not carried out a strategy of aggressive expansion in ambulatory care settings. We will continue to collaborate with our stakeholders to provide high quality, safe, cost effective care locally. Our position as the hospital that cares for the largest number of patients in our region brings with it the responsibility to offer programs and services to our community.

Answer: The investments South Shore Hospital has made in clinical programs have made us the choice for increasing numbers of people in our community and region. Our investments have been supported by price increases gained from collaboration with our partners that provide health care insurance because they see value in the services we provide their members. Inpatient facility price growth has mirrored our investments in programs and services. South Shore Hospital's growth in outpatient services has been modest. We have not carried out a strategy of aggressive expansion in ambulatory care settings. We will continue to collaborate with our stakeholders to provide high quality, safe, cost effective care locally. Our position as the hospital that cares for the largest number of people in our region brings with it the responsibility to offer programs and services to our community. The cost

to provide these services must be met by revenues in order to sustain our charity today and for future generations.

4) The concentration of teaching hospitals in Boston means that tertiary hospitals effectively serve as the "community hospital" for many patients. If your hospital is located in Boston, what reasonable solutions could your organization develop to provide routine care in less expensive – but appropriate - settings? If your hospital competes for patients with a teaching hospital outpatient facility, how has this impacted your revenues, costs and service mix?

Summary: South Shore Hospital experiences little, if any, competition from teaching hospital outpatient facilities in its primary service area.

Answer: South Shore Hospital experiences little, if any, competition from teaching hospital outpatient facilities in its primary service area.

5) Overall, we found an increase in the proportion of services being provided in more expensive settings. Is this trend occurring in your market area? What is driving this trend and what solutions would moderate this trend without impacting quality?

Summary: South Shore Hospital has made multiple investments in clinical programs and services that differentiate us from typical community hospitals. Regional outpatient market data is unavailable to us. South Shore Hospital has seen modest growth in outpatient services counter to the trends in the reports.

Answer: South Shore Hospital has made multiple investments in clinical programs and services that differentiate us from most community hospitals. These significant investments have given our patients an advanced clinical platform, enabling us to become a regional medical center with services more like those found in academic medical centers and we have been recognized with such distinctions as Magnet recognition from the American Nurses Association, a recognition achieved by only five percent of hospitals nationally. Our investments have also provided our patients with a large, clinically diverse medical staff with vision and competency for sophisticated program development. Our Hospitalists which are our attending-level physicians are the predominant care providers. We do not have access to other provider's outpatient utilization data and cannot comment accurately on conditions in our market. South Shore Hospital has seen modest growth in outpatient services counter to the trends in the reports.

6) From 2006-2008, what was your average annual increase in labor costs compared with your average annual increase in patient revenue? What are the major factors driving change in labor costs? What are the major factors driving change in patient revenues?

Summary: From fiscal 2006 to fiscal 2008 labor costs grew by an average of 7.4% per year. For the same period net patient services revenues grew by 9.2%

Answer: Multiple factors drive our labor costs including employee salaries, benefits and headcount growth. For the period fiscal 2006 to fiscal 2008 employee salaries increased an

annual average of 5.7% per full time equivalent and employee benefits by 5.0%. Full time equivalents for this period increased by approximately 3.7%.annually.

Each year several sources of published, third party surveys are collected and reviewed to assist us in determining our competitive salary and benefits position vis-à-vis the market.

Our salary increases are in line with statewide hospital averages, as reported by the Massachusetts Hospital Association Survey.

Our market includes other hospitals, home health care organizations, hospice organizations, and cross-industry organizations, and varies depending on the type of position being reviewed. These surveys provide us with a history of salary growth and, projected market trends. Recommendations for salary increase budgets and market adjustments are based on the review of market data and trends identified through the surveys.

Revenue growth is a function of volume of services, the price received for those services and the mix in intensity of those services. From fiscal 2006 to fiscal 2008 total discharges grew by 3.5% annually and total outpatient visits grew by 4.0% annually. The remainder of growth in net revenues is a result of price and service mix changes averaging approximately 6.0% annually.

7) Are the costs of acquiring medical equipment and technologies increasing, decreasing, or staying the same? Why and how do you think this is the case? What contribution is this having on your overall costs?

Summary: Medical equipment and technologies acquisition costs are driven by several factors; Changes in equipment due to clinical and technological advances, improvements in quality, safety and efficiency and program growth all contribute to the decisions to acquire capital equipment.

Answer: The cost of acquiring equipment in many cases has decreased after allowing for inflation. New technology, however, has increased costs, particularly in the areas of digital imaging. A mammography machine purchased in 2009 was 450% more expensive than one purchased in 2001; a digital mammography machine with stereo tactic capabilities added an additional 123% (total 573% increase). In the case of digital x-ray machines, the additional cost of digital technology reduces operating expenses since they eliminate the need for film, contrast, and storage.

With increased emphasis on patient safety, especially since care is given in a condensed period of time, some equipment purchases relate to protecting our patients. An automated medication inventory carousel in our Pharmacy not only hastens inventory turn-over and diminishes expired drugs, but also provides a safe method of dispensing medications. The cost, however, including building modifications is in the mid to upper six figure range. Other equipment to safeguard infants cost around $100,000. These types of purchases do not generate income, but do add another burden to the hospital and are crucial to patient safety.

The transition to electronic medical records produces a need for expensive software, maintenance, and hardware. While some grants are available to defray some of these capital expenditures, the average hospital is forced to make decisions when allocating precious capital funds.

Extensive investments in information technology are ongoing for items such as on line storage, technology turnover, advanced clinical systems for safety and quality, electronic health records, security and business continuity/communications.

Overall impact on hospital costs has been minimal; however major investments in information technology are facing our hospital.

The following questions relate specifically to your experience in service prices and mix of services provided:

8) What factors do you consider when negotiating payment rates for inpatient care and outpatient services? Please explain each factor (e.g., labor costs) and rank them in the order of impact on negotiated rates.

Summary: South Shore Hospital considers our relationships with contracted payers as partnerships. We feel there is a difference in the breadth, depth, quality and safety of care at South Shore Hospital versus many other community providers. Our contracting philosophy is built on demonstrating the benefits that South Shore Hospital offers to the insurance plans, their members and employers that provide the plan and collaborating on ways to sustain and expand those benefits. South Shore Hospital offers an array of services and programs that differentiate it from those offered at a typical community hospital and provides insurance plans with a viable alternative for many services that are traditionally provided only at academic medical centers.

Answer: South Shore Hospital has made multiple investments in programs and services that differentiate it from typical community hospitals. Some of the major investments include:

- Physician services including full-time paid chiefs of service, a 24-hour-a-day hospitalist program, laborist program, 24- hour on site surgical coverage and 24-hour coverage of our ICUs with intensivists.
- Level III Maternal/newborn license
- The only community based neonatal intensive care unit in Massachusetts
- Pediatric emergency, inpatient and specialty clinics in collaboration with Children's Hospital Boston
- Brigham & Women's Hospital programs (thoracic, surgery, oncology)
- Level II Trauma Center designation
- Cardiovascular services that include 24/7 emergency angioplasty, participation in elective angioplasty study, the first accredited hospital chest pain center in Massachusetts
- New England Society of Chest Pain Centers accreditation
- State designation as a primary stroke service

- Multidisciplinary vascular care program including a wound center, interventional vascular program and community awareness and outreach programs
- Magnet accreditation from the American Nurses Credentialing Center

These significant investments have given our patients an advanced clinical platform, enabling us to become a regional medical center. They have also provided us a large, clinically diverse medical staff with vision and competency for sophisticated program development. Our attending-level physicians are the predominant care providers.

Building and sustaining these programs is the primary consideration when negotiating payment rates with our insurance partners. Within the overall framework described above, the hospital must then consider the overall financial requirement to build and sustain these programs at our hospital. A portion of our financial requirement is derived from inflationary increases in our costs. Competitive salaries, wages, and benefits that help us retain and recruit talented professionals; sustaining our investments in physician services and support, cost increases associated with bringing the latest pharmaceutical and medical device technology to our patients; along with changes in cost for the wide variety of items we use in providing the facilities and care our patients require all factor into inflationary requirements. Regulated payments from governmental sources have not kept pace with inflationary cost increases; therefore, negotiated payment rates must exceed the rate of inflation to cover government shortfalls.

9) Do you generally negotiate contracts with carriers as part of a larger system or as an individual facility? Is there a material difference in how you approach contracts when you are contracting as part of a system vs. as an individual facility?

Summary: South Shore Hospital negotiates as an individual facility.

Answer: South Shore Hospital negotiates as an individual facility.

10) If applicable, do the services provided in your outpatient facilities in suburban areas differ from those in Boston? If so, how? For those services offered in both locations, do you charge the same or similar rates for all locations? If not, how do the rates – or price paid per person - differ and based on what factors? Are these facilities competing with community physicians or hospitals, or both for the same patients?

Summary: South Shore Hospital only operates in the suburbs. The question does not apply to us.

Answer: South Shore Hospital only operates in the suburbs. The question does not apply to us.

11) How has the expansion of outpatient facilities impacted the composition of surgical and medical admissions to your institution? How has the expansion of outpatient facilities impacted the price or cost paid per person of your institution?

Summary: South Shore Hospital has not expanded its outpatient facilities, and there is been little, if any impact on admissions to our institution due to outpatient expansion. We have not looked to negotiated payers to fund outpatient expansions.

Answer: South Shore Hospital has not expanded its outpatient facilities, there is been little, if any impact on admissions to our institution due to outpatient expansion. We have not looked to negotiated payers to fund outpatient expansions.

12) How does the variation in prices among different providers in your peer group (e.g., teaching/community hospitals, providers in your geographic area, your key competitors) affect the payment rate increase you seek in negotiations with health plans? Please provide an explanation of how you define your "peer group".

Summary: Price paid to other providers is not a factor when seeking payment increases from negotiated payers. Our contracting principles have been discussed in the response to question # 8. South Shore Hospital does not consider itself a traditional community hospital, it views itself as a regional medical center with characteristics like an academic medical center but uniquely community-based. As such, we do not have a peer in our geographic area.

Answer: Price paid to other providers is not a factor when seeking payment increases from negotiated payers. Our contracting principles have been discussed in the response to question # 8. South Shore Hospital does not consider itself a traditional community hospital, it views itself as a regional medical center. As such, it does not have a peer in its geographic area.

With respect to the aggregate trends, please comment:

13) What specific actions has your organization taken already to address these trends in the short term or long term? What current factors limit the ability of your organization to execute these strategies effectively?

Summary: As stated previously, South Shore Hospital has not experienced many of the trends discussed in the reports. Our focus is to provide high quality care locally.

Answer: South Shore Hospital has built high quality programs that benefit patients of the community and broad region we serve. The goal of our Hospital has been to keep care local and give our community a viable alternative to the large academic medical centers whenever possible for non-tertiary related care needs. We believe our model is better when the complete experience for the patient and family is considered. Services closer to home, no long drives in heavy traffic outside our region are necessary, especially for acutely ill patients. Free self-parking on our campus and free valet parking distinguish the patient experience on our campus from the alternatives available at the major academic medical centers. Our trends are different because of this focus.

14) What types of systemic changes would be most helpful in reducing cost trends without sacrificing quality and consumer access? What other systemic or policy changes do you think would encourage or help health care providers to operate more efficiently? What

changes would you suggest to encourage treatment of routine care at less expensive, but appropriate settings?

Summary: South Shore Hospital agrees with the structural shift away from the fee-for-service method of health care payment. We support the conceptual recommendation of the Payment Reform Commission to transition to a "global payment" structure. While we share many of the questions and concerns held by other providers about the specifics of how a global payment system is ultimately structured, we strongly share what we see as the core objective of the proposal – to manage the cost of health care premiums by improving the coordination of care and promoting healthier citizens. This represents a thoughtful approach to cost management that enables providers to remain viable and capable of attracting and acquiring the resources necessary to provide high quality care to patients across the Commonwealth. South Shore Hospital is opposed to being responsible for insurance/health risk. Any savings that are created from these efforts should accrue to the Commonwealth's employers.

Answer: Specific issues must be addressed that will define exactly how the new system will be structured. Without resolving these issues – and several other fundamental questions, such as how to create an Accountable Care Organization, this initiative will fail in its objectives both to reduce health care costs as well as to promote healthier people.

The exposure of providers to *insurance* risk – as opposed to the reasonable exposure to *clinical* risk – remains the greatest concern to the long-term financial viability of hospitals (or any clinical member of an Accountable Care Organization. It is absolutely vital to clarify the specific role going forward for insurance companies and what specific components of the new system will protect providers from conditions outside normal clinical expectations or performance measures.

Cost reduction is an understandable goal of health care reform at both the Federal and state level. However, we are concerned that it will be considered reform to simply slash government reimbursement rates or incorporate more people in government sponsored coverage plans that systemically pay less than the cost of providing services. The immediate revocation of massive amounts of money from the system should not be the driving objective of true health reform. The primary goal of reform should be the more thoughtful delivery of greater value for the resources already in the system and a reduction in the rate of annual increase to an affordable amount.

Understanding the pressure to reduce health spending, we believe that administrative simplification offers the most immediate and dramatic means to deliver fast and meaningful cost savings throughout the system without harming the quality of care. The Massachusetts Hospital Association (MHA) reports that 10 percent of all health care spending -- $5 billion per year -- is for administrative purposes. The impact would be massive if the state were able to establish a common set of rules of standards around billing, coding, credentialing, and performance reporting.

A fundamental assumption is that the current system creates incentives for providers to over-prescribe treatments and procedures because they make more money by doing more procedures. However, none of the Commission discussions have recognized that many

costly tests and procedures are done because patients expect and insist that "everything be done"--regardless of professional clinical determination of value. Stronger liability protection--in addition to payment structure reform--is necessary to facilitate any meaningful reduction in unnecessary procedures. Tort reform based on broad standards of care would offer vital legal support for clinicians to stand by their professional judgment when costly procedures or tests are deemed unwarranted.

Another directly related issue that must be a component of deliberations around tort reform and liability protection is the specific issue of usurious malpractice insurance premiums for physicians. The cost of malpractice insurance creates a competitive disadvantage for Massachusetts' ability to recruit and retain physicians – a dynamic which promises to push health care costs in the Commonwealth even higher.

15) Could enhanced competition or government intervention or a combination of both mitigate the cost trends found in the Divisions report? Please describe the nature of the changes you would recommend. In addition, please address the following:
    a. What would be the impact on your organization of making data public regarding quality and the reimbursement rates paid by each carrier to each hospital or system in a manner that identifies all relevant organizations? What is the advantage or disadvantage to your organization of the current confidential system?

Summary: South Shore Hospital's view on mitigating the cost trends found in the Division's report is detailed in our response to Question 14. Quality data is already available publicly. Governmental payment rates are also publicly available; however, private reimbursement rates are subject to confidentiality by contract. Since private reimbursement rates are confidential, the hospital cannot determine the advantage or disadvantage.

Answer: South Shore Hospital's view on mitigating the cost trends found in the Division's report are detailed in our response to Question 14. Quality data is already available publicly. Governmental payment rates are also publicly available; however, private reimbursement rates are subject to confidentiality by contract. Since private reimbursement rates are confidential, the hospital cannot determine the advantage or disadvantage

With respect to future years' Cost Trends Reports:

16) Please identify any additional cost drivers that you believe should be examined in subsequent years and explain your reasoning.

Summary: Many factors affect health care costs to private insurers the following items, in South Shore Hospital's view, should be focused on.

Answer: The cost and growth rate of health insurance premiums are not due to any one factor, they are a result of a systemic problem. From our perspective, the primary components driving health insurance costs are the following:

- Structural underpayment from government programs
- Excessive administrative burden
- Defensive medicine

- Unhealthy lifestyle choices that necessitate costly methods of care
- Investments in technology

Recognizing the complexity of these challenges, South Shore Hospital is a supporter of the recommendations of the 2009 Special Commission on Health Care Payment Reform and is participating in efforts to develop appropriate steps for the transition to a so-called global payment system. We believe that a comprehensive reform strategy promoting the global payment structure as well as other policy changes such as, tort reform and providers not taking on insurance risk, that address many of the drivers listed above is capable of holding the rate of premium growth that is consistent with other sectors of the economy.

17) Please provide any additional comments or observations you believe will help to inform our hearing and our final recommendations.

Summary:

Answer:

South Shore Hospital
Main Outpatient Volumes Stats by ER/OPD
Years 2006-2008
DHCFP Report
Source: Units of Services Stats
Table 1

		2008	2007	2006	Avg Change 2006 to 2008
Diagnostic Imaging	ER	49,821	48,924	44,068	6.3%
	OPD	41,530	39,384	41,067	0.6%
		91,351	**88,308**	**85,135**	3.6%
Nuclear Med	ER	67	60	56	9.4%
	OPD	2,830	2,843	2,898	-1.2%
		2,897	**2,903**	**2,954**	-1.0%
Ultra Sounds	ER	3,552	2,972	2,712	14.4%
	OPD	18,737	17,382	17,709	2.9%
		22,289	**20,354**	**20,421**	4.5%
CAT Scans	ER	21,692	19,829	17,713	10.7%
	OPD	13,832	14,684	14,130	-1.1%
		35,524	**34,513**	**31,843**	5.6%
Mamograph Exams	ER	0	0	0	
	OPD	16,240	16,800	16,283	-0.1%
		16,240	**16,800**	**16,283**	-0.1%
MRI	ER	469	484	413	6.6%
	OPD	6,465	6,261	6,152	2.5%
		6,934	**6,745**	**6,565**	2.8%

Exhibit C

Questions

1) Please explain and submit a summary table showing your internal costs and cost trends from 2004 to 2008 broken out to show categories of aggregate direct costs (e.g., labor costs for all cost centers) and categories of indirect costs including, but not limited to, debt service, depreciation, advertising, bad debt, stop-loss insurance, malpractice insurance, health safety net, development/fundraising, administration, research, academic costs. Please explain and submit supporting documents to show the methodologies you use to allocate the categories of indirect costs to cost centers (operating units).

Summary: South Shore Hospital has chosen not to maintain an internal cost accounting system that allocates all the costs--direct and indirect--associated with providing a service. In our experience, cost accounting systems provide marginal value versus the expense and effort to implement and maintain them. Our philosophy is to establish budgets for expenses that are within each of our managers' control, and then hold each manager accountable to meet budget. Since internal cost accounting reports do not exist, our Hospital is submitting a summary of DHCFP-403 cost findings to demonstrate cost trends by functional category of cost.

Answer: The attached Table 1 summarizes the changes in cost by functional area from fiscal 2004 to fiscal 2008 compiled from the DHCFP-403.

2) Please explain and submit supporting documents that show any steps you have taken to reduce or control the growth of your internal direct or indirect costs in the last 5 years.

Summary: Efforts to provide high quality, safe patient care in a cost effective manner is a continuous process at South Shore Hospital. The hospital utilizes a combination of aggressively challenging department leaders to manage costs for which they are responsible for while maintaining or improving quality and safety for our patients, assembling internal multidisciplinary teams to focus on specific areas of opportunity and, when appropriate, engaging external expertise. The hospital has successfully identified and implemented many opportunities over the past five years.

Answer: South Shore Hospital is constantly reviewing costs to improve efficiency while also improving the patient's experience. There have been several major efforts which involved enhancing patient experience and throughput in the most cost efficient method possible. Some recent examples are detailed below.

In 2008 a multi-disciplinary internal group of administrators, physicians, and department directors was tasked with improving the Hospital's operating margin. Twelve individual areas were targeted reduce cost without jeopardizing quality. Some of the accomplishments of the program are detailed on Attachment A.

One major engagement contracted an outside resource, Medical Strategies & Management Systems, entitled Project Unified Care, encompassed the patient experience and throughput in the Emergency Department. As a result of this effort, significant progress was made in several key aspects in the emergency room including:

- Reduced time for patient to see physician
- Reduced waits for hospitalist orders
- Improved transport of patient from the emergency room to the inpatient unit
- Improved early/predicted discharges on our inpatient units

Another example of an engagement using external expertise was to determine appropriate levels of staffing throughout the clinical areas of the hospital. This evaluation was conducted by a firm called H*Works, a member of the Advisory Board consulting practice. The study focused on staff levels in relationship to volume at South Shore Hospital compared to best practice benchmarks. The study concluded that nursing unit data showed a very high level of efficiency performance, in many instances far exceeding national top quartile performance. It also identified several ancillary departments achieving similar levels of productivity.

As a component of life at South Shore Hospital, Directors have included into their routine the task of staying within or below budget. To accomplish this, Directors continuously review cost options and process issues to determine the most cost efficient way to provide quality service to our patients. Please see Attachment B.

3) Please explain and submit a summary table showing your annual operating margins (positive or negative) from 2004 to 2008 for your entire commercial, government, and all other business (and please identify the carriers or programs included in each of these three aggregate margins). Please explain and submit supporting documents to show the mechanics of how you calculate your margin from your accounting system and identify whether you exclude any direct costs or indirect costs, or include any grants, donations, or non-patient revenue, in calculating your margins.

Summary: South Shore Hospital does not have an accounting system that calculates margins by insurance type.

Answer: This information does not exist.

4) Please explain and submit supporting documents that show how your DHCFP-403 Cost Report submission differs from your own internal cost information including any difference in direct costs, indirect costs, or non-patient revenue.

Answer: There is no reconciliation to the DHCFP-403 since the hospital does not perform margin calculations by insurance type.

5) Please explain and submit a summary table showing your annual capital ratio, debt service coverage ratio, and cash on hand for fiscal years 2004 to 2008 and include any target ratios and cash position you have set to obtain bond or bank financing. Please explain how your capital expenditures (property and equipment), restricted capital donations, and changes in cash position (endowment) have increased or decreased your internal costs and margin calculations.

Summary: Our annual budgets have never been set to obtain bond financing. Our annual budgets are set to fund our Hospital's goals of patient safety and quality of care. Our annual budgets also fund a market competitive salary, wage and benefit program that allows us to recruit and retain the professional staff needed to care for our patients. Our annual capital budgets contain many items that improve quality of care and the safety of our patients. We evaluate use of bond financing for capital investments along with other funding options such as philanthropy, cash and investments.

Answer: We do not set target ratios to obtain bond financing. The hospital does monitor these ratios to ensure they meet or exceed any covenants within our existing indebtedness and the impact on these ratios should the hospital choose to change its debt structure by issuing additional debt or retiring outstanding debt. The hospital also compares these ratios to the medians of other hospitals with similar credit ratings. Please find Table 2 attached showing South Shore Hospital's debt to capitalization ratio, debt service coverage ratio and days cash on hand for fiscal years 2004 through 2008.

The hospitals debt to capitalization ratio deteriorated from fiscal 2004 to fiscal 2008 due to the issuance of the hospital's Series G bonds and two large items that impacted unrestricted net assets, loss on investments and an increase in pension liability.

Debt service coverage dropped from a fiscal 2004 high of 3.69 to 2.42 in fiscal year 2008. The drop in 2008 is due to unusual activity in non-operating activities, impairment of investments, loss on an interest rate swap, and a loss on refinancing.

Day's cash-on-hand have declined. Beginning in fiscal 2004 the hospital had 148 days, reaching a high of 155 in fiscal 2005, then declining to 141 by fiscal 2008. Actual cash balances have increased during this period, from $101.3 million in fiscal 2004 to $127.7 million in fiscal 2008, an average annual growth rate of 6.0%, primarily due to investment returns. Growth in operating expenses of 7.6% has outpaced investment return, diluting the amount of day's cash on hand.

Capital expenditures for the five years fiscal 2004 through fiscal 2008 have had minimal impact on the hospital's internal costs and margin. Capital expenditures for this period totaled approximately $79.3 million. Depreciation and amortization for the same period totaled $79.9 million. This demonstrates the hospital is replacing its physical plant as it wears out. In fact, through this period, depreciation expense grew by an average annual rate of only 1.7%. This also results in depreciation as a percent of total operating expenses shrinking from 6.1% in 2004 to 4.6% in 2008.

Capital purchases from restricted donations had little impact on our internal costs and margins since they only accounted for about $1.5 million of the total capital purchases of $79.3 million in the five year period.

As can be seen from the above information, South Shore Hospital has essentially maintained its financial position with respect to capital spending and the resulting cost impact during this period.

6) Please explain and submit supporting documents that show your internal costs, including any stop-loss coverage, for any risk you currently bear related to your contracts with commercial insurers. Please include any analysis you have conducted on how much your costs and risk-capital needs would change based on increases or decreases in risk you bear in relation to your business with commercial insurers.

Summary: South Shore Hospital does not have any risk contracts with commercial insurers.

Answer: South Shore Hospital does not have any risk contracts with commercial insurers.

South Shore Hospital
Summary of Expenses by Department
Per DHCFP-403 Schedule IX
Exhibit C TABLE 1

OVERHEAD CENTERS	2004	2005	2006	2007	2008	Avg annual growth
Depreciation - Buildings	$ 8,145,672	$ 7,841,756	$ 8,239,629	$ 7,892,811	$ 8,961,745	2.4%
Depreciation - MME	8,060,522	7,210,691	6,742,839	8,403,376	8,367,566	0.9%
Interest Expense	5,725,882	5,672,315	5,482,742	5,168,564	5,327,166	-1.8%
Fringe Benefits	27,185,020	31,588,171	36,706,602	39,594,739	42,066,609	11.5%
Administration	26,133,039	29,055,951	31,831,950	35,954,110	38,462,321	10.1%
Advertising	299,809	626,751	416,993	195,660	813,466	28.3%
Purchasing	206,917	292,897	316,338	360,497	385,102	16.8%
General Accounting	1,686,646	1,722,375	1,661,174	1,628,385	1,719,311	0.5%
Patient Accounts	4,399,475	4,920,773	5,135,135	5,350,733	5,611,026	6.3%
Insurance Prof Malp	956,766	949,210	787,713	740,986	759,890	-5.6%
Insurance Hosp Malp	657,180	1,111,232	922,104	570,910	809,534	5.4%
Insurance Other	415,197	465,049	409,022	415,643	344,499	-4.6%
Plant Operations	7,282,340	7,531,176	9,618,600	10,006,899	11,309,180	11.6%
Security	2,500,544	2,620,316	2,286,573	2,322,221	2,966,452	4.4%
Laundry and Linen	134,065	142,895	62,639	66,227	145,496	2.1%
Housekeeping	3,354,573	3,576,790	3,806,396	4,085,111	4,556,931	8.0%
Dietary	4,109,969	4,153,091	4,303,388	4,495,248	4,711,756	3.5%
Nursing Admin	825,199	1,671,300	2,691,048	2,542,605	1,622,171	18.4%
Nsg In-service Education	770,158	639,113	563,079	586,195	601,386	-6.0%
Central Services	1,401,684	1,476,074	1,469,932	1,437,619	1,204,461	-3.7%
Pharmacy	8,847,030	10,313,143	10,252,723	10,998,673	11,712,482	7.3%
Medical Records	4,402,630	4,747,542	4,223,425	4,111,782	4,279,227	-0.7%
Social Services	2,164,879	2,262,997	2,218,294	2,364,201	2,618,385	4.9%
Overhead Centers	119,665,196	130,591,608	140,148,338	149,293,195	159,356,162	7.4%
Surgery	17,429,726	19,312,616	20,726,718	22,567,594	27,727,769	12.3%
Labor and Delivery	6,294,877	6,628,482	6,773,769	7,103,876	8,030,058	6.3%
Recovery Room	1,707,911	1,939,368	2,031,036	2,159,313	2,297,737	7.7%
Anesthesiology	668,678	720,109	785,515	764,447	898,829	7.7%
IV Therapy	797,432	928,276	1,248,865	1,183,240	1,409,350	15.3%
Laboratory	6,794,274	6,601,138	6,508,714	7,354,300	7,918,945	3.9%
Blood Processing	2,478,216	2,315,503	2,787,060	2,758,479	2,716,571	2.3%
EKG	643,321	749,594	2,068,550	6,271,306	2,227,823	36.4%
Cardiac Cath	1,317,427	1,477,180	2,261,749	3,243,787	4,158,316	33.3%
Diag Radiology	9,111,864	9,679,535	8,855,762	9,318,238	9,417,704	0.8%
CT Scan	1,612,107	2,318,712	1,851,445	2,165,808	2,014,054	5.7%
Nuclear Med	816,012	916,729	813,023	909,703	945,871	3.8%
Resp Ther	2,291,460	2,637,767	2,606,356	2,983,130	3,340,974	9.9%
Pulm Function	104,175	90,257	75,699	77,216	82,341	-5.7%
ECG	253,508	296,825	301,015	912,613	355,413	8.8%
Physical Therapy	2,516,973	2,786,850	2,975,579	3,123,273	3,694,163	10.1%
Renal Dialysis	495,856	507,086	612,148	619,808	671,474	7.9%
Ambulance	304,757	302,006	459,542	477,400	627,555	19.8%
M/S Acute	17,412,540	19,247,606	22,631,440	25,607,642	27,332,029	11.9%
Pediatric Acute	2,277,717	2,413,702	2,546,744	2,889,352	1,998,839	-3.2%
OB Acute	7,437,621	7,222,363	7,319,262	7,587,676	8,302,195	2.8%
M/S Intensive Care	9,336,741	11,205,848	11,261,056	8,191,920	13,999,828	10.7%
Newborn Nursery	4,469,548	5,123,304	6,101,999	6,209,239	5,243,449	4.1%
Emergency Services	20,729,094	22,700,533	24,280,709	24,982,301	25,743,682	5.6%
Clinic/Amb Svcs	2,366,919	2,576,910	2,767,382	2,944,155	3,797,966	12.5%
Home Health Services	15,748,487	16,525,442	16,374,157	17,471,580	18,683,805	4.4%
Fundraising	855,705	1,162,947	1,046,763	1,430,565	1,993,005	23.5%
Non-Overhead	136,272,946	148,386,688	158,072,057	171,307,961	185,629,745	8.0%
Provision for BD	7,843,216	5,780,092	4,500,355	4,783,675	6,859,791	-3.3%
UCP Asses	3,537,635	3,468,311	3,174,357	3,314,414	3,563,447	0.2%

South Shore Hospital
Exhibit C
Question 2 - Attachment A

Operating Margin Improvement achieved cost savings:

Laboratory:

- Changed phlebotomy supplies to less expensive, but comparable quality.
- Brought some tests traditionally sent to reference labs in-house
- Reviewed and focused on "unnecessary" testing in the Emergency Department
- Automated the "front end" to gain efficiencies and enable more in-house testing
- Renegotiated blood contract realizing significant savings

Information Systems:

- Eliminated software applications
- Reduced software service and maintenance contracts
- Cut supply costs

VNA:

- Changed Hospice pharmacy vendor from national to local provider; this shift not only saved money, but also increased patient and staff satisfaction

Energy:

- Re-engineered lighting installing sensors, timers, and more efficient fixtures
- Installed controls to regulate flow and eliminate continuous run in isolation rooms
- Upgraded boiler to dual fuel to improve efficiencies; return on investment projected to be 3-4 years
- Reviewed options for electric alternatives, photovoltaic cells, and cogeneration in power plant

Supplies:

- Change in the previously used brand of various supplies resulted in significant savings without jeopardizing quality (each new brand was trialed prior to commitment).
- Review and modification of nourishments to nursing units and in-house catering produced savings
- Renegotiated the GPO contract to reduce administrative fees
- Replaced mattresses to eliminate need for overlays

Pharmacy:

- Targeted "big ticketed" drugs and required a brand switch where applicable
- Renegotiated wholesale distribution contract with primary vendor
- Approved protocols to allow pharmacists to automatically round doses on wide therapeutic index medication saving on previously wasted partial doses

Cardiovascular:

- Standardize stents and other major supplies where clinically acceptable to capitalize on pricing via increased discounts
- Maintain competitive pricing from the primary vendor

South Shore Hospital
Exhibit C
Question 2 - Attachment B

Nursing Division:

- Real time monitoring of staffing patterns based upon occupancy, particularly in the Birthing Unit, including cancelling shifts if warranted.
- Standardizing medical/surgical supplies in all locations including the Ambulatory Day Care and Operating Rooms
- Creating 107 order sets to standardize and use evidence based medicine
- Implemented protocols to reduce ventilator associated pneumonia and central line infections
- Embraced the State Action on Avoidable Rehospitalizations (STAAR) initiative to reduce the readmission rate by 50%
- Standardized supplies, applied inventory controls via LUM (lowest unit of measure) and JIT (just in time) principles
- Achieved fall and pressure ulcer prevention rates that land in the lowest 1/3 of the national average
- Optimized staff performance whereby H*Works, an Advisory Board Company, ranks South Shore's efficiency performance in many instances "far exceed national top quartile performance"
- Transferred non-nursing functions to support staff
- Developed a Maternal Special Care unit to improve nursing efficiency and increase patient satisfaction

Physician Leaders:

- As volume increases, adding Mid-level providers such as Physician Assistants and Nurse Practitioners in the Emergency Department in lieu of physicians.
- Purchase equipment in the ED which increases efficiency and reduces turn-around time for patients, example: Ultrasound in the ED results in shorter length of stay and expedites decision making and treatment modalities for some patients.
- Use of counselors for patients involved in motor vehicle accidents who have substance abuse issues. Indirect cost savings include prevention of future injuries, potentially save lives, and quicker treatment for the condition.
- Educate clinicians about the use of certain studies such as CT scans; use of ultrasound is less expensive and avoids unnecessary radiation.
- Use of vendors that produce high quality products for lower costs, example: sutures.
- Monitor all primary cesarean section cases to reduce the rate of occurrence, implemented a separate policy with order form and order set for elective inductions of labor to decrease the length of stay on the Birthing Unit, decrease the number of inductions, and decrease cesarean section rates.
- Incorporated SHORETEAMS, communication and situational training for all clinical disciplines so that they can optimally function as a team and reduce

patient risk, and laborists to provide a continued effort to run the BU efficiently in a multidisciplinary fashion by performing scheduled procedures in a timely fashion and by advancing the development of a high risk antenatal unit on maternity to reduce bottlenecks on BU.

- Developed of an outpatient "diabetes in pregnancy" clinic to more efficiently take care of these patients.
- Increased anesthesiology coverage to better accommodate maternity patients
- Review charts of all complications, particularly surgical complications, to ensure compliance of Surgical Infection Protocols in an effort to prevent infection.
- Expanded Hospitalist Program to decrease costs through earlier discharge, increased throughput from the Emergency Department, decreased length of stay, decreased readmission rate, and increased quality as demonstrated through such metrics as the Core Measures.
- Work closely with Atrius (physician group) through the CHAPS program to avoid redundancy of testing and procedures.
- Employ an inpatient Diabetes Nurse Educator who focuses on diabetes treatment early in the hospital stay ensuring that the patient is receiving correct medications, teaching the patient, and, where possible, decreasing the length of stay by improving the quality of diabetic care.
- Entered the MassComm Trial to allow South Shore Hospital to treat elective angioplasty patients locally in lieu of sending them into an academic medical center decreasing the cost.

Pharmacy:

- Developed dose rounding protocols for high cost drugs
- Created conversion tables for targeted intravenous medications and recommended oral agent since IV medications are more costly than oral agents.
- Produced a policy to ensure responsible use of antimicrobial agents in order to contain cost and minimize antimicrobial resistance while providing appropriate care for our patients.
- Purchased a carousel to enhance the safe distribution of pharmaceuticals and lower waste from expired medications by automating inventory management.

Employee Benefits/Wellness:

- Promote safety to help prevent slips and falls in and our workforce decreasing disability time, eliminating overtime coverage, and controlling our self insured workers compensation costs.
- Installed ceiling lifts in sixty rooms and thirty lateral transfer devices to reduce work related injuries.
- Minimize illness via a vigorous immunization campaign for seasonal influenza and H1N1.
- Promote increased use of safety devices in the workplace (sharps, patient lifts) to limit injuries to healthcare workers.
- Aggressively manage workers compensation cases to decrease overhead operating costs

- Encourage smoking cessation via policies and assistance to our workforce to promote a healthier employee base and lower health insurance costs.

Finance:

- Combined two departments to eliminate one manager.
- Voluntarily eliminated one FTE at a substantial savings to the department.
- Successfully reduced contracted service fees through a Request for Proposal for the pension audits and year-end actuarial services.
- Currently bidding pension actuary services with anticipation of a reduction in cost.
- Enhanced efforts to seize all payment term discounts.
- Cross trained Payroll and Accounts Payable staffs to reduce/eliminate overtime

Ancillary and Other Services:

- Medical Staff Office automated the staff appointment (and reappointment) application packet saving paper, postage, and manpower
- Medical staff schedules are available on the Hospital's portal eliminating the need to copy and distribute paper copies
- Use of scanners eliminated mailing and storage expenses
- VNA reduced the use of contract labor
- Implemented voice recognition in lieu of transcription to reduce labor and paper expenses
- Reevaluated our leasing practice in light of changed economic conditions

Plant:

- Replaced five outdated air handler units with two high efficiency air handling units
- Installed replacement windows and solar reduction film to reduce air infiltration and energy loss
- Substituted new water processing units within the Dialysis and Laboratory areas to reduce water consumption by 40%

SOUTH SHORE HOSPITAL
DHCF&P DATA REQUEST
Exhibit C - Question 5
Table 2

	2004	2005	2006	2007	2008
Capital Ratio (debt/capital)	47.2%	47.7%	41.3%	38.6%	53.8%
Debt Service Coverage Ratio	3.69	2.98	2.76	3.20	2.42
Cash on hand	148	155	151	141	141